

Veijo Komulainen

GROWTH AND SCALEUP ENABLERS FOR SMEs

Growth and Scaleup

Enablers for SMEs

Acknowledgements

Over the years, various dialogues with friends, colleagues, and entrepreneurs have revealed the true challenge faced by growing companies, the challenge from within. At some point I became convinced that the topic was important and that experience relevant to it was worth sharing and exploring further. And what a gratifying journey it has been! Dozens of discussions with people involved in different facets of growth-company operations have unveiled aspects of business that typically go unnoticed and have created new content for modern growth companies; the text offers examples of both. Thank you all my numerous sparring partners!

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Why this book?

This book is about leadership in SMEs, small and middle size enterprises. Statistics confirm that the growth of a small firm into a mid-size company is a journey that too few firms accomplish. Consequently, most firms remain small. What would be needed for growth is a new, proactive look at leadership. This approach assumes that leaders can manage to find the time, energy and wherewithal to be proactive and find out what they and their organizations will need for the future. This book elaborates *proactive development of leadership and capability* over the life cycle of an SME from a variety of perspectives and contemplates the keys to growth. The potential impact of growing SMEs on the success of societies is huge.

How can we ensure local employment and increase the rate of job creation? This is the key question faced by societies worldwide. As globalization and technology transform business, local employment in developed countries will depend increasingly on small and medium-sized businesses and the growth they create; these companies already account for the majority of new private sector jobs in most countries. Helping them expand is one of the best ways to support economic growth and employment.

The phenomenon of innovative entrepreneurship has invited lots of talented young people to establish new businesses embracing new technologies and business models that often seek to disrupt existing businesses and business models. This is a commendable goal and some of them break quickly into the market. But most startups fail to meet expectations. Although 45–60 % of all startups in the USA and up to 70% in the Nordic countries survive their first five years, only a fraction (6–7%) grow significantly. Finally, only one in a hundred startups

manages to sustain rapid growth. Hence startups alone are not a sufficient source of new growth and prosperity.

It has been widely recognized that the key to business growth is not just more companies, but the achievement of growth by existing companies, and particularly fast growth. Further analysis is needed to identify companies with growth potential. In most European countries micro enterprises (fewer than 9 employees) constitute 85–95% of all enterprises. Small enterprises (10–49 employees) typically represent 5–15% of the total number of enterprises, middle-sized enterprises (50–249 employees) 1–2.5%, and large companies (over 250 employees) 0.1–0.5%. In broad terms, the GDP distribution between these groups is 20 / 20 / 20 / 40% with the final percentage referring to large companies. Somewhat more than five percent of the companies in the EU exceed one million euros in annual revenue. Germany is the textbook example of a healthy balance with 18% of its companies exceeding one million in revenue.

US statistics differ slightly; there are roughly 28 million companies, out of which non-employer enterprises are the vast majority, i.e. 20.8 M. Almost all of the employer enterprises (6 M) are SMEs (the SBA Office of Advocacy defines an SME as employing fewer than 500 workers). Only 0.3% or 84,000 are large companies. Only four percent of all US companies exceed annual revenue of one million dollars and less than half of one percent reach the level of ten million.

The situation is to a great extent similar in all developed countries despite large differences in size, business culture, enterprise / entrepreneurial environment, and workforce. In many countries most established SMEs – usually accounting for more half of GDP and employment – are barely growing at all, and yet they already have a customer base, products, organization and other prerequisites that startups can only dream of. As a result, the growth of national economies depends increasingly on a relatively small group of companies able to adapt to the changing environment.

How could this potential be tapped and companies kick-started to new growth? For one reason or another, many existing businesses seem to be stuck with their present growth rates. Growth requires will and

skill, and one or the other seems to be lacking in these cases. According to HBR research, 85% of the CEOs in large corporations consider company internal factors the most significant obstacle to growth. This also applies to SMEs. This book explores the challenge of SME growth from a rare perspective; the impact of internal factors on the capability to grow, focusing on internal enablement of growth. It seeks means for renewal, new growth, and finally scaleup of existing businesses.

The book approaches these basic topics through the following:

- What is capability, how do you measure it and how do you increase it?
- What are growing pains, what are their symptoms and what are their root causes?
- How do you sustain company growth from one phase to another and avoid growing pains?
- How do you transform leadership while your company is growing from a small firm of 10–15 employees into a mid-size company of 300–500?
- How do you build the agile culture and capability that will enable your company to grow into the future?
- Finally, what are the keys to accelerate the transition from growth to scaleup?

All the anonymous examples of the book are from real life; they are conventional companies from different business areas with different business models that have experienced a variety of growing pains. The scaleup phenomenon is examined through five real life companies from a variety of businesses with different business models.

This book is written to elaborate the thoughts of entrepreneurs, CEOs, employees, owners, consultants – hopefully also yours – about how to take the company forward through challenges of growth. It explains the factors underlying growing pains and guides the leadership through the multiple transformations needed on the path from

a small entrepreneurial company into a progressive mid-size enterprise. The core of the story is in *proactive development of leadership and capability*. The book is intended to serve as a concise handbook for SME transformation.

*Hopefully this reading experience creates value and
new thoughts for you. Strategy is thinking!*

New York, August 2018

Veijo Komulainen

Introduction

Capability and its development are at the core of this book. Before we dive more deeply into the theme we must make sure that we have a common definition of capability.

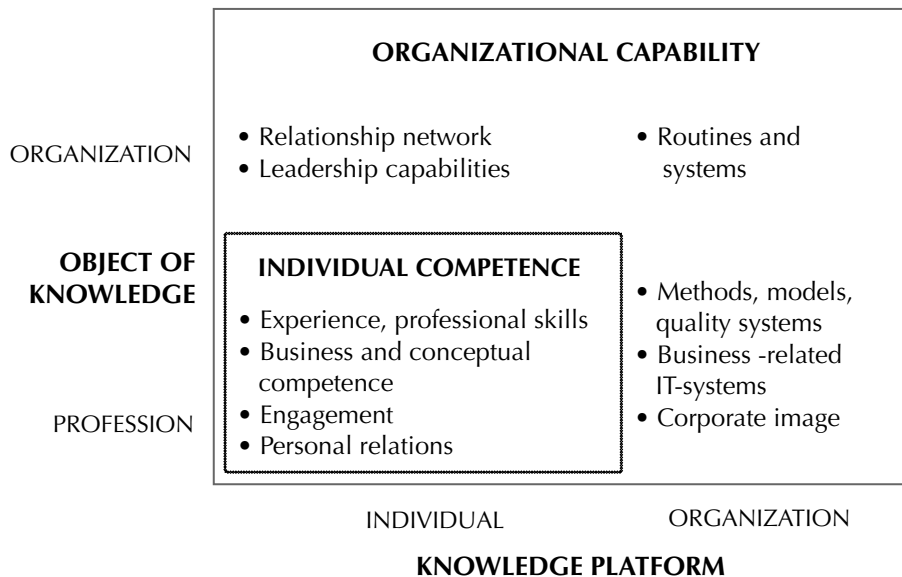
What is Competence and What is Capability?

Individual performance in organizations is based on individual competence. When we speak of competence we normally mean professional knowledge based on education and experience gained from similar duties. In a working community, however, operations also mean collaboration with other people and often an understanding of the entity in question, i.e. organizational or business competence and conceptual knowledge. Working communities are built and developed through concepts that are jointly defined and understood. Taken together, these define individual knowledge, i.e. competence.

The ability of individuals to work in an organization is further affected by their own commitment, working conditions, and personal relations within the surrounding organization and stakeholders.

Capability relates to the capacity of the organization and its individuals to work together to produce high quality products and services sensibly and with maximum efficiency. The capability of an organization is not related to the amount of resources, but to achievement given the existing preconditions. The target of capability development is to produce more – quantity, value, and/or quality – with less.

The capability of an organization is a network of good practices, working processes, and working principles that efficiently combine the competence of individuals to enable achievement of organizational goals.



Graph 1. Individual competence in relation to organizational capability. An efficient organization needs both competent individuals and an agreed way of working.

A successful organization is a capable organization; its employees are professional and educated and its operations are coherent, supported by good practices, and effective. Or at least it should have these basic prerequisites for success. But how do you know whether an organization is capable? Is it possible to compare the capabilities of organizations? Can you measure the capability of an organization? The capability maturity model offers one method of evaluation.

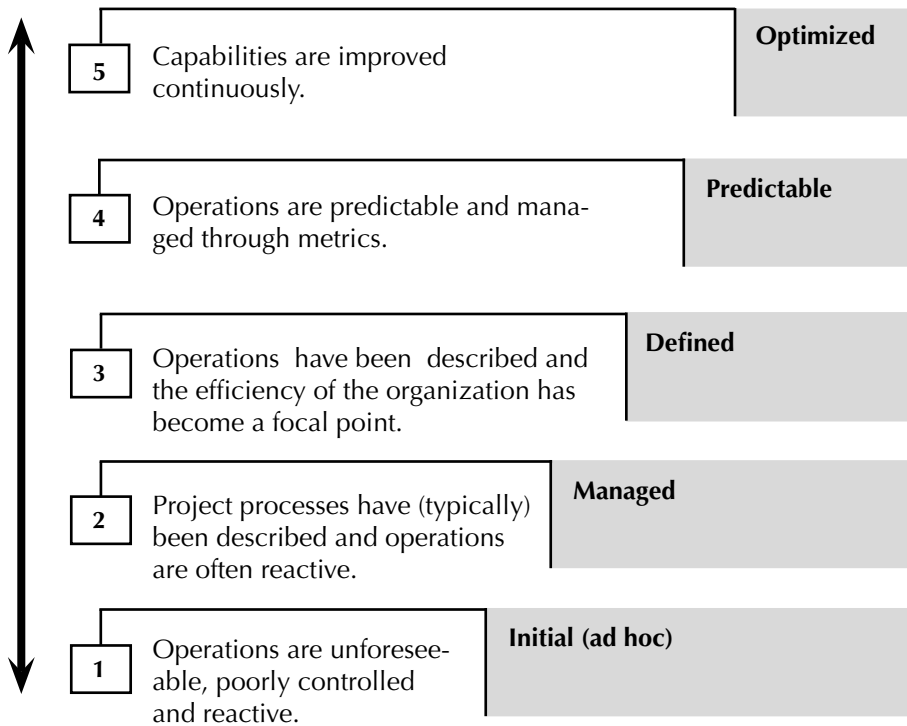
The Capability Maturity Model

The operations of an organization always comprise practices, working methods, working principles, and processes through which individual performances are connected to implement organizational targets. Operational efficiency depends largely on how extensively these practices have been agreed upon and whether they are repeatable or determined by each person individually. The more the various areas are considered and agreed on jointly as operations develop, the more coherent and automatic they become. The clarity and development phase of an organization can be described with the stage-wise capability maturity model.

The following description is based on the Capability Maturity Model of the CMMI Institute, which will be referred to later on in this book as CMMI. Other relevant metrics for development and capability are provided by EFQM and the Baldrige TQM Awards for Excellence. The targets of CMMI are comparable with those of the latter two. They are based on the idea that an organization constantly improves its operations during periods of growth and tries initially to make them repeatable, then gradually predictable, manageable, and optimized in all of the operational areas of the company and in a measurable way.

The CMMI model defines five levels. According to this model, the predictability, efficiency, and control of all operations improve when the organization advances from one level to another. Exact comparisons between all companies are difficult because market situations and other circumstances vary. Even though the evidence is not precise, experience from long-standing operations of organizations supports this view.

High operational maturity



Low operational maturity

Graph 2. The CMMI maturity model. CMMI is a model for improving operations and business processes. It provides a platform for comparing the development and capability of organizations. What level is your own organization on?

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This book explores the challenge of SME growth from a rare perspective; the impact of internal factors on the capability to grow. It opens up a path for traditional organizations to make their operations agile, lean and self-imposed, a path leading to higher productivity and job satisfaction. The prerequisites for growth from a revenue level of USD one million up to USD 100 million are described from various developmental viewpoints.

This book was written for you, the CEO of a growing company.

If it speaks to you and your company, make certain that your board and management team also read it.

Growth and Scaleup Enablers for SMEs is also targeted at all the legal, financial, HR, communication and ICT professionals who work with growing companies. After reading it you'll be able to identify the most essential challenges that need to be addressed today. Leave the rest for the future.

"Highly recommended for all startup founders that want to become scale-ups without the treacherous try-and-fail cycle; we have worked with hundreds of startups and we have seen the situations described in the book so many times in real life."

- Murat Aktihanoglu, Investor, Managing Partner at Entrepreneurs Roundtable Accelerator (ERA), New York

"This books is easy to read, filled with facts and data that yield actionable conclusions for those that want to accelerate company growth. Sections titled "For Consideration" makes it more than an essay; Veijo has created a tool that can assure the understanding of the issues presented and assist in educating teams."

- Fred Walti, Co-Founder and first CEO of the Los Angeles Cleantech Incubator (LACI)
Founder / CEO of the Network for Global Innovation (NGIN), Los Angeles

"Scale-up is the most challenging of entrepreneurial ventures. Veijo's book tackles this challenge. He provides the idea of how things should be but also the realities of scaleup based not just on studies, but on his real and extensive experience. I highly recommend this book to anyone interested in the world of entrepreneurship and especially to those managing companies in transition."

- Gene Detroyer, Professor International business, Guizhou University of Finance and Economics
Professor, Leadership & Entrepreneurship, European School of Economics, 2008–2018

"This book is a must-read for startup's and SME's to avoid common pitfalls of stagnation or failure. It is a very much hands on book, various case studies and self-assessments will help benchmark the companies' organisational needs, and this awareness will help SME's progress through the growth phases."

- Ramalinga Ramamurthy, Board professional, Switzerland
Senior Venture Principal, Shell Technology Ventures, 2012–2017

"This book does a fantastic job at identifying the key prerequisites for growth, as well as the major barriers that may cause companies to lose momentum and fall behind. A must-read for any ambitious and driven CEO."

- Tuomas Syrjänen, Co-founder, Futurice, Helsinki